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FISCAL IMPACT STATEMENT

LS 6657

BILL NUMBER: SB 318

NOTE PREPARED: Jan 1, 2009

BILL AMENDED:

SUBJECT: Adjustment of Assessed Values.

FIRST AUTHOR: Sen. Mrvan

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that biennial adjustments of the assessed value of real property apply beginning with the March 1, 2010, assessment date. The bill specifies that the last annual adjustment shall be applied to adjust assessed values for the March 1, 2008, assessment date, and that assessed values shall not be adjusted for the March 1, 2009, assessment date.

Effective Date: Upon passage.

Explanation of State Expenditures: The bill would require the Department of Local Government Finance (DLGF) to adopt rules to transition from annual assessment adjustments to biennial adjustments.

Under current law and beginning in 2009, the DLGF must conduct all ratio studies required for annual adjustments. The change to biennial adjustments could reduce the DLGF's expense for conducting the studies. The amount of savings is currently unknown as the DLGF's cost to perform the studies hasn't yet been established.

Explanation of State Revenues:

Explanation of Local Expenditures: Under current law, real property is fully reassessed every five years. The next general reassessment takes effect with taxes payable in 2012. Annual adjustments to real property values are applied each year in which a general reassessment does not take effect.

Under this bill, the adjustment for taxes payable in 2009 would be the last annual adjustment made. Beginning with taxes payable in 2011, the interim valuation adjustments would be applied only for taxes

payable in odd-numbered payable years and as long as a general reassessment does not take effect in those years.

Cost: This bill would eliminate one-half of the interim adjustments. All of the data collection and verification would continue. But the time spent to conduct the final analysis of the data, calculation of sales factors, and updates of assessments would be reduced by up to 50%. This could result in substantial cost savings for counties whether these functions are performed in-house or under contract.

Assessment and Billing Schedule: The change to biennial adjustments would likely allow those counties that currently struggle to complete annual adjustments to catch up and complete their assessment work on time. Timely assessments would encourage on-time property tax billings and could reduce the need for short-term borrowing.

Property Tax Levies: Most property tax levies would be unaffected by the change to biennial adjustments. However, the change would affect the levies for rate-controlled funds, such as cumulative funds. When assessed values increase, the levies for rate-controlled funds increase. When assessed values are reduced, then rate-controlled levies fall. The change to biennial adjustments would eliminate this effect in non-adjustment years.

Tax Shifts: Less frequent adjustments would result in tax shifts between property classes and within property classes. The amount and direction of these tax shifts depend on the direction of change in assessment factors by location.

For instance, if home values are growing faster than commercial values, an annual assessment would shift taxes to homeowners each year, but the biennial adjustment would eliminate that shift in the non-adjustment years. Likewise, if home values are growing slower than commercial values, an annual assessment would shift taxes to commercial property owners each year, but the biennial adjustment would eliminate that shift in the non-adjustment years.

If real property values are on the rise, then the bill would eliminate the shift from real property to personal property in the non-adjustment years. Conversely, if real property values are in decline, then the bill would eliminate the shift from personal property to real property in the non-adjustment years.

Whatever the direction of the shifts, taxpayers would experience a smaller year-to-year tax change in the non-adjustment years and a larger year-to-year tax change in the adjustment years.

Circuit Breaker Credits: Under current law, each property tax bill is capped at a percentage of gross AV, specific to the type of property. If values are on the rise, then the taxpayer's tax cap amount also increases. If values are in decline, then the taxpayer's tax cap amount is reduced. The change to biennial adjustments would delay the change in each taxpayer's net tax cap in each year without an adjustment. The year-to-year change in the tax cap would be twice as large in the adjustment years.

Explanation of Local Revenues:

State Agencies Affected: DLGF.

Local Agencies Affected: Township and county assessors; all local civil taxing units and school corporations.

Information Sources:

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